

## NOTICE OF CONFIDEN

*Suzanne Henderson*  
 OF THE FOLLOWING INFORMATION FROM THIS INSTRUMENT BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.

Texas Form 88  
 Revised 8/05

## OIL AND GAS LEASE (PAID UP)

AGREEMENT, Made and entered into this 18<sup>th</sup> day of January, 2008 by and between M&K Investments, LTD., a Texas Limited Partnership, whose address is 715 West Harris, Arlington, Texas 76001. Party of the first part, hereinafter called Lessor (whether one or more), and Paloma Barnett, LLC, whose address is 1021 Main Street, Suite 2600, Houston, Texas 77002, Party of the second part, hereinafter called Lessee.

1. WITNESSETH. That the said Lessor, for and in consideration of ONE OR MORE DOLLARS, cash in hand paid, receipt of which is hereby acknowledged and of the covenants and agreements hereinafter contained on the part of Lessee to be paid, kept and performed, has granted, demised, leased and let and by these presents does grant, demise, lease and let unto the said Lessee, for the purpose of investigating, exploring, by geophysical or other means, prospecting, drilling, and operating for and producing oil and all gas of whatsoever nature or kind, including all associated hydrocarbons produced in a liquid or gaseous form, also including sulphur produced in association with oil or gas, hereinafter sometimes collectively referred to as "oil and gas", injecting gas, waters, other fluids, air and other gaseous substances into subsurface strata, laying pipelines, storing oil, building tanks, power stations, telephone lines and other structures and things hereon to produce, save, take care of, treat, process, store and transport said oil and gas and other products manufactured therefrom, the following described land, together with any reversionary rights, riparian rights and after-acquired interest, therein situated; in the County of Tarrant, State of Texas,

1.840 acres of land, more or less, also being known as a tract of land situated in the O. Harris Survey, Abstract Number 645, an addition to the City of Arlington, Tarrant County, Texas, and being more particularly described in a Warranty Deed with Vendor's Lien dated September 26, 2002, and recorded in Volume 16029, Page 173, Plat Records, Tarrant County, Texas, and amendments thereof, including streets, easements, and alleyways adjacent thereto, and any riparian rights.

This is a non-development Oil & Gas Lease, whereby Lessee, its successors or assigns, shall not conduct any operations, as defined herein, on the surface of said lands. However, Lessee shall have the right to pool or unitize said lands, or part thereof, with other lands to comprise an oil and/or gas development unit. This clause shall take precedence over any reference of the surface operations contained within the preprinted portion of this lease.

and containing 1.840 acres, more or less

It is agreed that this lease shall remain in force for a term of 3 years from date (herein called primary term) and as long thereafter as oil and gas, or either of them, is produced or capable of being produced from said land by the Lessee. In consideration of the premises the said Lessee covenants and agrees:

1st. To deliver to the credit of Lessor, in the pipeline to which it may connect its wells, 25 % part of all oil (including but not limited to condensate and distillate) produced and saved from the leased premises. Lessor's interest to bear its proportionate cost of treating oil to render it marketable pipeline oil.

2nd. To pay Lessor for gas (including casinghead gas) and all other substances covered hereby, a royalty of 25 % of the net proceeds realized by Lessee from the sale thereof, less a proportionate part of the production, severance and other excise taxes and the cost incurred by lessee in delivering, processing, compressing, transporting, or otherwise making such gas or other substances merchantable, said payments to be made monthly. If gas from any well or wells on the premises capable of producing gas in commercial quantities is not sold or used off the premises or in the manufacture of gas for a period of one (1) year or more, during which time there is no other production from the leased premises, then Lessee shall pay or tender as royalty for such annual period a sum of one dollar (\$1.00) per net acre within ninety (90) days after the end of such annual period.

If, at the expiration of the primary term, Lessee is conducting operations for drilling, completing or reworking a well, this lease nevertheless shall continue as long as such operations are prosecuted or additional operations are commenced and prosecuted (whether on the same or successive wells) with no cessation of more than 90 days, and if production is discovered, this lease shall continue as long thereafter as oil or gas, are produced. In addition, if at any time or times after the primary term, there is a total cessation of all production, for any cause (subject to the force majeure provisions), this lease shall not terminate if Lessee commences or resumes any drilling or reworking operations, or production, within ninety (90) days after such cessation. Drilling operations or mining operations shall be deemed to be commenced when the first material is placed on the leased premises or when the first work, other than surveying or staking the location, is started thereon which is necessary for such operations.

Lessee is hereby granted the right at any time and from time to time to unitize the leased premises or any portion or portions thereof, as to all strata or any stratum or strata, with any other lands as to all strata or any stratum or strata, for the production primarily of oil or primarily of gas with or without distillate. However, no unit for the production primarily of oil shall embrace more than 160 acres, or for the production primarily of gas with or without distillate more than 640 acres; provided that if any governmental regulation shall prescribe a spacing pattern for the development of the field or allocate a producing allowable based on acreage per well, then any such unit may embrace as much additional acreage as may be so prescribed or as may be used in such allocation of allowable. In the absence of governmentally prescribed spacing, Lessee shall file written unit designations in the county in which the leased premises are located. Operations upon and production from the unit shall be treated as if such operations were upon or such production was from the leased premises whether or not the well or wells are located thereon. The entire acreage within a unit shall be treated for all purposes as if it were covered by and included in this lease except that the royalty on production the unit shall be as below provided, and except that in calculating the amount of any shut in gas royalties, only the part of the acreage originally leased and then actually embraced by this lease shall be counted. In respect to production from the unit, Lessee shall pay Lessor, in lieu of other royalties thereon, only such proportion of the royalties stipulated herein as the amount of this acreage placed in the unit, or his royalty interest therein on an acreage basis, bears to the total acreage in the unit.

If said Lessor owns a lesser interest in the above described land than the entire and undivided fee simple estate therein, whether stated hereinabove as whole or partial interest, then the royalties herein provided shall be paid to the Lessor only in the proportion which his interest bears to the whole undivided fee. In addition, the Lessee shall have a right to issue a replacement draft for any draft that was tendered for bonus, royalty or other payment, which payment was based on Lessor's ownership interest in the above described lands. In the event it is determined by Lessee that Lessor owns a lesser interest in such land than the amount on which such royalty, bonus or other payment was based and in the event a draft has already been paid prior to the discovery of Lessor's lesser interest, then Lessee shall have a right to be reimbursed for such overpayment upon making written request, and shall also have rights of setoff against other or future royalty or other payments in order to recover such overpayment, it being understood and agreed by the parties that Lessor's payments of bonus, royalty or other payments that are based on Lessor's net mineral acre ownership shall be adjusted to reflect Lessor's true net mineral acre ownership.

Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for its operations thereon, except water from wells of Lessor. When requested by the Lessor, lessee shall bury his pipelines below plow depth. No well shall be drilled nearer than 200 feet, or the minimum distance required by the municipality, to the house or barn now on said premises, without the written consent of the Lessor. Lessee shall pay for all damages caused by its operations to growing crops on said land.

D208234852

Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing.

Any structures and facilities placed on the lease premises by Lessee for operations hereunder and any well or wells on the leased premises drilled or used for the injection of salt water or other fluids may also be used for Lessee's operations on other lands in the same area.

If the estate of either party hereto is assigned, and the privilege of assigning in whole or in part is expressly allowed, the covenants hereof shall extend to their heirs, executors, administrators, successors or assigns. However, no change or division in ownership of the land or royalties shall enlarge the obligations or diminish the rights of Lessee. No change in ownership of the land or royalties shall be binding on the Lessee until after the Lessee has been furnished with a written transfer or assignment or a true copy thereof. In case Lessee assigns this lease, in whole or in part, Lessee shall be relieved of all obligations with respect to the assigned portion arising subsequent to the date of assignment.

If, while this lease is in force, at, or after the expiration of the primary term hereof, it is not being continued in force by reason of the shut-in well provisions herein, and Lessee is not conducting operations on said land by reason of (1) any law, order, rule or regulation, (whether or not subsequently determined to be invalid) or (2) any other cause, whether similar or dissimilar, (except financial) beyond the reasonable control of Lessee, the primary term hereof shall be extended until the first anniversary date hereof occurring ninety (90) or more days following the removal of such delaying cause, and this lease may be extended thereafter by operations as if such delay had not occurred.

This lease shall be effective as to each Lessor on execution hereof as to his or her interest and shall be binding on those signing, notwithstanding some of the Lessor's above named may not join in the execution hereof. The word "Lessor" as used in this lease means the party or parties who execute this lease as Lessor, whether or not named above.

Lessee may at any time and from time to time, surrender this lease as to any part or parts of the leased premises by delivering or mailing a release thereof to Lessor, or by placing a release of record in the proper County.

Lessor hereby warrants and agrees to defend the title to the lands herein described, and agrees that the Lessee shall have the right at any time to redeem for Lessor by payment, any mortgages, taxes or other liens on the above described lands, in the event of default of payment by Lessor, and be subrogated to the rights of the holder thereof.

This is a paid-up lease. In consideration of the cash payment acknowledged above, Lessor agrees that Lessee is not obligated to commence or continue any operations during the primary term.

In addition to the other rights granted herein, Lessor hereby grants to Lessee a continuing, perpetual pipeline right-of-way, under the terms and conditions hereinafter set forth. Lessor grants to Lessee the right, privilege and easement to construct, reconstruct, operate, maintain, inspect, test repair, replace, remove, alter and abandon an initial pipeline, and any additional pipeline, for the transportation of any or all of gas, gas constituents, oil or oil constituents, together with the right of ingress and egress over the land leased hereunder and the right to use such surface or subsurface areas as may be reasonably needed for the exercise of the rights, privileges and easements herein granted. The term "pipeline" as used in this paragraph includes such surface or subsurface pipeline appurtenances and facilities (including, without limitation, any metering equipment and dehydration facilities and connections to any wells located on said land). This pipeline right-of-way is not limited to pipeline for the use of production from the lands leased under this Lease, and such pipeline right-of-way is without regard to whether such gas, gas constituents, oil or oil constituents are produced from the land leased hereunder or from any other lands, and further without regard to whether such lands are pooled or unitized with the land leased hereunder or not. If the Lessee desires to exercise the rights, privileges or easements granted by this paragraph by commencing construction of an initial pipeline, then upon completion Lessee shall pay to Lessor a sum equal to One Dollar per lineal foot for each lineal foot of pipeline installed, and upon completion shall pay a sum equal to Fifty Dollars for any meter installation, dehydration station, or well connection installed, and the Lessee shall have the continuing rights, privileges and easements granted in this paragraph with respect to any additional pipeline that Lessee desires to install thereafter. If the Lessee fails to commence construction of any initial pipeline during the term of this lease, (as such term may be extended by option, agreement, production, gas storage, or in any other manner), then after receipt of written request from the Lessor, the Lessee agrees to provide to Lessor a written document canceling this pipeline right of way. If any initial pipeline construction is commenced during the term of this lease, then all of the rights, privileges and easements granted in this paragraph to the Lessee shall continue, after expiration of this lease, until such time as the Lessee shall release such rights, privileges and easements by an instrument in writing, duly recorded. Notwithstanding anything in the foregoing to the contrary, however, if pipeline is constructed pursuant to Paragraph one (1) of this lease, for the purpose of transporting gas, gas constituents, oil or oil constituents produced from the lands leased under this lease, or from lands pooled with the lands leased under this lease (collectively, the "leasehold production pipeline"), then the Lessee shall not be required to pay any sums to Lessor in respect of such leasehold production pipeline and Lessee's rights with regard to such leasehold production pipeline shall be as set forth in Paragraph one (1) of this lease.

This lease may, at Lessee's option, be extended as to all or part of the lands covered hereby for an additional primary term of (2) years commencing on the date that this lease would have expired but for the extension. Lessee may exercise its option by paying or tendering to Lessor an extension payment of \$15,000.00 per net mineral acre for the land then covered by the extended lease. Said bonus is to Lessor at Lessor's address above or last known address. If Lessee exercises this option, the primary term of this lease shall be considered to be continuous, commencing on the date of the lease and continuing from that date to the end of the extended primary term. Lessor hereby grants any such extensions of this lease without necessity of an amendment to said lease.

As a result of land development in the vicinity of the lease premises, governmental rules or ordinances regarding well sites, and/or surface restrictions as may be set forth in this lease and/or other leases in the vicinity, surface locations for well sites in the vicinity may be limited and Lessee may encounter difficulty securing surface location(s) for drilling, reworking or other operations. Therefore, since drilling, reworking or other operations are either restricted or not allowed on the lease premises or other leases in the vicinity, it is agreed that any such operations conducted at a surface location off of the lease premises or off of lands with which the lease premises are pooled in accordance with this lease, provided that such operations are associated with a directional well for the purpose of drilling, reworking, producing or other operations under the lease premises or lands pooled therewith, shall for purposes of this lease be deemed operations conducted on the lease premises. Nothing contained in this paragraph is intended to modify any surface restrictions or pooling provisions or restrictions contained in this lease, except as expressly stated.

In the event that Lessor, during the primary term or extension of this lease, receives a bona fide offer which Lessor is willing to accept from any party offering to purchase from Lessor a lease covering any or all of the substances covered by this lease and covering all or a portion of the land described herein, with the lease becoming effective upon expiration of this lease, Lessor hereby agrees to notify Lessee in writing of said offer immediately, including in the notice the name and address of the offeror, the price offered and all other pertinent terms and conditions of the offer. Lessee, for a period of fifteen days after the receipt of the notice, shall have the prior and preferred right and option to purchase the lease or part thereof or interest therein, covered by the offer at the price and according to the terms and conditions specified in the offer.

In the event Lessor considers that the Lessee has failed to comply with any obligation hereunder, express or implied, Lessor shall notify Lessee in writing, specifying in what respect Lessor claims Lessee has breached this lease. The service of such notice and elapse of sixty (60) days without Lessee meeting or commencing to meet the alleged breaches shall be a condition precedent to any action by Lessor for any cause. If, within sixty (60) days after the receipt of such notice Lessee shall meet or commence to meet the breaches alleged by Lessor, Lessee shall not be deemed to be in default hereunder.

Notwithstanding anything to the contrary contained in this lease, at the option of Lessee, which may be exercised by Lessee giving notice to Lessor, a well which has been drilled and Lessee intends to frac shall be deemed a well capable of producing in paying quantities and the date such well is shut-in shall be when the drilling operations are completed.

Notwithstanding anything to the contrary contained in this lease, should a shut-in royalty payment not be properly made in a timely manner as provided for in this lease, Lessor may, at Lessor's option, elect to terminate the applicable portion of this lease by sending written notice to Lessee by certified mail; provided that, Lessee shall then have thirty (30) days from the date of receipt of such

written notice in which to avoid termination of the applicable portion this lease by making or causing to be made the proper shut-in royalty payment. If such shut-in royalty payment is not made on or before the expiration of said 30 day period, Lessor may elect to terminate the applicable portion of this lease by filing a Notice of Termination with the County Clerk in the county where the lease premises are located. The effective date of said termination shall be the date said Notice of Termination is filed with the said County Clerk.

It is hereby understood and agreed by and between Lessor and Lessee that any and all fees required by lienholders for the purpose of obtaining a subordination are the responsibility of Lessee, its successors and assigns and all monies applicable to said fees will be paid by Lessee.

IN TESTIMONY WHEREOF, we sign this the 18<sup>th</sup> day of January, 2008

Charles Long  
Charles Long, President of K.L. Holdings Co., Inc, General Partner for M&K Investments LTD

STATE OF TEXAS

(CORPORATE ACKNOWLEDGEMENT)

COUNTY OF TARRANT

This instrument was acknowledged before me on the 17 day of June, 2008, by Charles Long, President of K.L. Holdings Co., Inc, General Partner for M&K Investments LTD

Bryan Charles Ferrant  
Notary Public, State of Texas  
Notary's Name Printed:  
Notary's Commission Expires:

